FINAL REPORT

WP-07 Supplemental Wholesale Power Rate Adjustment Proceeding:
FY 2009 AVERAGE SYSTEM COST REPORT
FOR

Puget Sound Energy

Docket Number: PS-PB-08-01
Effective Date: October 1, 2008

PREPARED BY
BONNEVILLE POWER ADMINISTRATION
U.S. DEPARTMENT OF ENERGY

September 11, 2008

This page intentionally left blank.

TABLE OF CONTENTS

This page intentionally left blank.

I. FILING DATA

Utility	Parties to the Filing
Puget Sound Energy P.O. Box 97034 Bellevue, WA 98009-9734	A complete list of intervening parties is located at the following BPA web site: http://www.bpa.gov/corporate/finance/ascm/Docs/Intervening_Parties.pdf

Effective: October 1, 2008 – September 30, 2009
WP-07 Supplemental Wholesale Power Rate Adjustment Proceeding

II. AVERAGE SYSTEM COST: DETERMINATIONS

A. Base Period 2006

	As Filed	July 8, 2008 As Amended	August 4, 2008 As Revised	Sept. 11, 2008 Final
Production Cost	$1,218,999,283	$1,202,482,570	$1,202,482,570	$ 1,203,829,932
Transmission Cost	$ 86.098,233	$86,233,879	$86,233,879	$85,928,863
(Less) New Large Single Load Costs				
Total Contract System Cost	$1,305,097,516	1,288,716,449	1,288,716,449	$1,289,758,795
Total Retail Load (MWh)	21,099,045	21,099,045	21,099,045	21,099,045
(Less) New Large Single Load				0
Total Retail Load (Net NLSL)	21,099,045	21,099,045	21,099,045	21,099,045
Plus Distribution Losses	966,336	1,052,842	1,052,842	1,052,842
Total Contract System Load (MWh)	22,065,381	22,151,887	22,151,887	22,151,887
FY 2006 Base Period ASC ($/MWh)	**$59.15**	**$58.18**	**$58.18**	**$58.22**

B. FY 09 (Exchange Period) ASC without New Resource Additions ($/MWh)

	July 8, 2008 As Amended	August 4, 2008 As Revised	Sept. 11, 2008 Final
FY 2009 (Rate Period) ASC without New Resource Additions ($/MWh)	**$62.67**	**$58.26**	**$59.71**

C. FY 09 (Exchange Period) ASC with New Resource Additions ($/MWh)

FY 2007-2009 New Resource Additions: N/A

There are no New Resource Additions recorded.

III. FILING REQUIREMENTS

A. Introduction

Section 5(c)(l) of the Pacific Northwest Electric Power Planning and Conservation Act (Pacific Northwest Power Act), 16 U.S.C. § 839c(c)(l), establishes the Residential Exchange Program (REP). Any Pacific Northwest utility interested in participating in the REP may offer to sell power to Bonneville Power Administration (BPA) at the average system cost (ASC) of the utility's resources. In exchange, BPA offers to sell an "equivalent amount of electric power to such utility for resale to that utility's residential users within the region" at the BPA rate established pursuant to section 7(b)(l) of the Act. *See generally*, H.R. Rep. No. 976, Pt I, 96th Cong., 2d Sess. at 60 (1980).

The Act gives BPA's Administrator the discretionary authority to determine ASC on the basis of a methodology to be established in a public consultation proceeding. 16 U.S.C. 839c(c)(7). The only express statutory limits on the Administrator's authority are found in sections 5(c)(7)(A), (B) and (C) of the Act. 16 U.S.C. 839c(c)(7)(A), (B) and (C).

BPA's first ASC Methodology was developed in consultation with regional interests in 1981. See 48 FR 46,970 (Oct. 17, 1983). It was later revised in 1984. *See* 49 FR 39,293 (Oct. 5, 1984). In the mid-1990s, BPA and exchanging Utilities agreed to a number of termination agreements that provided for payments to each Utility through the remaining years of the Residential Purchase and Sale Agreements (RPSA) that implemented the REP. These termination agreements did not require the participating utilities to submit ASC filings.

In 2000, BPA executed REP Settlement Agreements with each IOU customer. The Agreements provided monetary benefits and power sales to the IOUs to resolve disputes regarding BPA's implementation of the REP. On May 3, 2007, the U.S. Court of Appeals for the Ninth Circuit issued a decision finding the Agreements unlawful. BPA therefore began efforts to resume the REP, including the development of RPSAs and a consultation proceeding to revise the 1984

ASC Methodology.

As with the previous ASC Methodologies, the proposed 2008 ASC Methodology (ASCM) was developed in consultation with interested parties through a series of working group meetings conducted by BPA staff. The goal of the consultation process was to develop an administratively feasible ASC Methodology that would be technically sound, and comport with the Northwest Power Act. The Methodology is subject to review and approval by the Federal Energy Regulatory Commission (FERC or Commission).

BPA maintains a significant role in reviewing Utilities' ASC filings to ensure compliance with the 2008 ASCM. For more information regarding the 2008 ASCM, please refer to the *Final Record of Decision of the 2008 Average System Cost Methodology*, dated June 30, 2008.

For more information regarding the proposed 2008 ASCM, refer to the *Final Record of Decision of the 2008 Average System Cost Methodology*, dated June 30, 2008.

B. ASC Determination Process Guidelines and Expedited Review Process

The purpose of BPA's expedited review process is to estimate exchanging Utilities' ASCs for FY 2009 that could be noticed by the Administrator and incorporated into BPA's WP-07 Supplemental Rate Proceeding in order to ensure that BPA's FY 2009 power rates established in that proceeding rely on the most accurate ASCs possible. For purposes of the expedited review process, and as specified in the Review Procedures of the proposed 2008 ASCM, on or before March 3, 2008, each exchanging utility (Utility) submitted a ''base period ASC'' to BPA using data from its 2006 FERC Form 1 and other supporting data. All data were submitted using BPA's proposed Appendix 1, an Excel-spreadsheet based model. The submittal of the Appendix 1 filing began the formal review and comment process to establish ASCs for the exchanging Utilities which is referred to as the Review Period. Although BPA reviewed the initial data in the context of BPA's initially proposed 2008 ASCM, BPA knew that it would be completing its proposed 2008 ASCM and issuing a Record of Decision supporting that ASCM near the end of June 2008. In order that the ASCs determined in the expedited review process would reflect as accurately as possible the ASCs that would be in effect for determining REP benefits for FY 2009, BPA reviewed the Utilities' filing under the criteria of BPA's Final 2008 ASCM. This ensured that the ASCs relied on by BPA in establishing its FY 2009 power rates would be as accurate as possible. Parties had a full and complete opportunity to intervene in BPA's expedited review process and to submit comments on BPA's proposed ASCs.

For details of the prospective Review Period and guidelines, see *Attachment A to the 2008 Final Record of Decision of the 2008 Average System Cost Methodology, June 2008: 2008 Methodology for Determining the Average System Cost of Resources for Electric Utilities Participating in the Residential Exchange Program Established by Section 5(c) of the Pacific Northwest Electric Power and Conservation Act.*

The 2008 ASCM incorporates, in part, the functionalization process and functionalization codes, with modifications, determined in the 1984 ASCM. Costs are assigned under functionalization

codes to Production, Transmission, or Distribution/Other. Functionalization of each Account included in a Utility's ASC is in accordance to the functionalization prescribed in the 2008 ASCM, Attachment A, Table 1.

The ASCM allows Utilities to file multiple, contingent, ASCs to reflect changes to service territories, and allows for changes to ASCs resulting from major resource additions and reductions.

In summary, BPA reviewed ASCs during the expedited review process in accordance with the 2008 ASCM published June 30, 2008. After establishing a base period ASC determination, BPA used the ASC Forecast model, an excel based spreadsheet, to escalate the base year ASC forward to the effective rate period, FY 2009 (October 1, 2008 thru September 30, 2009). The base year and forecast ASC results are reported herein.

C. Explanation of Schedules

Utilities' Appendix 1 filings consist of a series of seven schedules and other supporting information, which present the data necessary to calculate ASC. The schedules and support data are as follows:

1. Schedule 1 - Plant Investment/Rate Base
2. Schedule 1A - Cash Working Capital calculation
3. Schedule 2 - Capital Structure and Rate of Return
4. Schedule 3 - Expenses
5. Schedule 3A - Taxes
6. Schedule 3B - Other Included Items
7. Schedule 4 - Average System Cost
8. Distribution of Salaries and Wages
9. Purchased Power & Off-System Sales
10. New Large Single Load
11. Labor Ratios

1. Schedule 1 – Plant Investment/Rate Base

This schedule establishes the rate base used by the Utility. The calculation begins with a determination of the total Electric Plant In-Service, which includes the gross historical costs of the Intangible, General, Production, Transmission, and Distribution Plants. These values (and all subsequent values) are entered into the Appendix 1 filing as line items based on separate FERC account descriptions. Each line item (Account) is functionalized to Production, Transmission, or Distribution/Other in accordance to the functionalizations prescribed in the 2008 ASCM, Attachment A, Table 1.

Next, in order to reflect the book value of the remaining plant, depreciation and amortization reserves are evaluated and entered into the Appendix 1 form and functionalized. These are then subtracted from the Total Electric Plant In-Service to determine the Total Net Plant.

The resulting Total Net Plant is adjusted, where appropriate, to reflect additions in Cash Working Capitol (calculated in Schedule 1A), Utility Plant, Property and Investments, Current and Accrued Assets, Deferred Debits. It is adjusted again, where appropriate, to deduct the Current and Accrued Liabilities, and Deferred Credits from the Total Net Plant. The outcome of these adjustments defines the Total Rate Base. When multiplied by the Rate of Return as determined in Schedule 2, the result is the Utility's return on investment.

2. Schedule 1A – Cash Working Capital

Cash working capital is a ratemaking convention that is not included in the Form 1, but a part of all electric utility rate filings as a component of rate base. To determine the allowable amount of cash working capital in rate base for a Utility, BPA allows 1/8 of the functionalized costs of total production expenses, transmission expenses and Administrative and General expenses less purchased power, fuel costs, and public purpose charge.

3. Schedule 2 – Capital Structure and Rate of Return

This schedule lists the data used by the Utility to develop the rate of return applied to the Utility's rate base developed on Schedule 1 to determine the Utility's return on investment.

IOUs use the weighted cost of capital (WCC) from the most recent State Commission Rate Order with a Federal income tax adjustment to determine the return calculation. The return on equity (ROE) used in the WCC calculation is grossed up for Federal income taxes at the marginal Federal income tax rate using the formula found in the ASC Methodology, Attachment A, Section IX, Endnote b. For COUs, the rate of return is equal to the COU’s weighted cost of debt.

4. Schedule 3 – Expenses

This schedule represents operations and maintenance expenses for the production of power, the transmission of electricity, and the distribution of electricity. Each expense item is functionalized as described above. Additional expenses associated with customer accounts, sales, and administrative and general expenses for both operations and maintenance are also included in this schedule. Depreciation and amortization for the associated plants are added to the operating and maintenance expenses to calculate Total Operating Expenses.

5. Schedule 3A – Taxes

This schedule presents allowable ASC cost for Federal employment tax and non-Federal taxes, including property and unemployment tax. State income tax, franchise fees, regulatory fees, and city/county taxes are included herein but are functionalized to Distribution/Other and therefore not incorporated in ASC. Taxes and fees for each state listed are grouped together and entered as “combined” line items for Appendix 1 filing purposes.

Federal income taxes included in ASC are calculated and described in Schedule 2 above, *Capital Structure and Rate of Return*.

6. Schedule 3B – Other Included Items

This schedule includes revenues from the disposition of plant, sales for resale, and other revenues, including electric revenues and revenues from transmission of electricity to others (wheeling). Items in this schedule are deducted from the total costs of each Utility.

7. Schedule 4 – Average System Cost ($/MWh)

This schedule summarizes the cost information calculated in Schedules 2 through 3B: Federal income tax adjusted return on rate base, total operating expenses, state and other taxes, and other included items. The schedule also lists the load information, as defined below, and calculates the Utility's ASC.

Contract System Cost:
The Contract System Cost is the Utility's costs for production and transmission resources, including power purchases and conservation measures, which costs are includable in and subject to the provisions of Appendix 1. Costs to serve NLSL are excluded from ASC calculations. This Contract System Cost becomes the numerator in calculating ASC.

Contract System Load:
The Contract System Load is the total regional retail load included in the Form 1, or for a consumer-owned utility (preference customers) the total retail load from the most recent annual audited financial statement as adjusted pursuant to this Average System Cost Methodology. The denominator in the ASC calculation consists of the Contract System Load (MWh) of the Utility increased for distribution losses, and reduced by any New Large Single Load(s) (NLSL).

8. Distribution of Salaries and Wages

The supporting file is used to determine the Labor Ratio calculations and includes salaries and wages from relevant operations and maintenance of the electric plant.

9. Purchased Power and Sales for Resale

The Purchased Power is an Account of Schedule 3, *Expenses*, and includes all purchases the Utility made during the year, including power exchanges. Sales for Resale is an Account of Schedule 3B*, Other Included Items,* and includes power sales to purchasers other than ultimate consumers. Listed in the information for both Accounts is the statistical classification code for all transactions. Refer to the FERC Form 1, pages 310-311 for Sales for Resale and pages 326-237 for Purchased Power for identification of the classification codes.

10. New Large Single Load

A new large single load (NLSL) is any load associated with a new facility, an existing facility or an expansion of an existing facility which was not contracted for or committed to (CF/CT) prior to September 1, 1979, and will result in an increase in power requirements of the specific customer of ten average megawatts (10aMW) or more in any consecutive twelve-month period.

BPA determines the cost of serving NLSLs by using the fully allocated cost of all post-September 1, 1979, resources and long-term power purchases greater than five years in duration.

11. Labor Ratios

These ratios assign costs on a pro rata basis using salary and wage data for production, transmission, and distribution/other functions included in the Utility's most recently filed Form 1. For consumer-owned utilities, comparable data is used based on the cost of service study used as the basis for retail rates at the time of review.

D. ASC Forecast

The Base Period ASC is applied to an Excel-based forecasting model to escalate the Base Year ASC data forward to the Exchange Period. For purposes of the expedited process, that Exchange Period is FY 2009. BPA uses Global Insight's (or its successor) forecast of cost increases for capital costs and fuel (except natural gas), O&M, and G&A expenses; BPA's forecast of market prices for IOU purchases to meet load growth and to estimate short-term and non-firm power purchase costs and sales revenues; BPA's forecast of natural gas prices; and BPA's estimates of the rates it will charge for its PF and other products. For additional background on the determination of Exchange Period ASCs, see details of the 2008 ASC Methodology, Section IV *Rules for Determining Exchange Period Average System Cost*, Subsection A.

1. Forecast Contract System Costs

Forecast Contract System Costs (CSC) are the Utility's forecast costs for production and transmission resources, including power purchases and conservation measures, which costs are includable in and subject to the provisions of Appendix 1. As outlined in the 2008 ASC Methodology, Section IV *Rules for Determining Exchange Period Average System Cost*, Subsection A, Forecast CSC, BPA escalates base period costs to the midpoint of the fiscal year for the FY 2009 rate period/Exchange Period to calculate Exchange Period ASCs. BPA projects the costs of power products purchased from BPA using BPA's forecast of prices for its products.

2. Forecast of Sales for Resale and Power Purchases

BPA does not normalize short-term purchases and sales for resale. The short-term purchases and sales for resale for the Base Period are used as the starting values for the forecast. The Utilities are then allowed to include new plant additions and use a Utility-specific forecast for the (1) price of purchased power and (2) sales for resale price, to value purchased power expenses and sales for resale revenue. For details, see the 2008 ASC Methodology, Section IV *Rules for Determining Exchange Period Average System Cost*, Subsection B.

3. Forecast Contract System Load and Exchange Load

All Utilities are required to provide a forecast of their Contract System Load and associated Exchange Load, as well as a current distribution loss study as described in the 2008 ASCM, Attachment A, endnote e/, with their Appendix 1 filing. The load forecast for Contract System Load and Exchange Load starts with the Base Period and extends through 4 years after the Exchange Period. The load forecast for Contract System Load and Exchange Load is provided on a monthly basis for the Exchange Period.

4. Major Resource Additions

BPA uses the method outlined in the 2008 ASC Methodology, Section IV *Rules for Determining Exchange Period Average System Cost*, Subsection C to determine the change in ASC due to major new resource additions or reductions, subject to meeting the materiality threshold of 2.5%. These additions include new production resource investments, new generating resource investments, new transmission investments, long-term generating contracts, pollution control and environmental compliance investments relating to generating resources, transmission resources or contracts, hydro relicensing costs and fees, and plant rehabilitation investments.

The exchanging Utility provides its forecast of any major resource addition and all associated costs. The forecast covers the period from the end of the Base Period (FY 2006) to the end of the Exchange Period (FY 2009).

The forecast of the major resource costs to be included in the Utility's Exchange Period ASC is reviewed and determined during the review period. All resources included prior to the start of the Exchange Period are projected forward to the mid-point of the Exchange Period.

5. Load Growth Not Met by New Resource Additions

All load growth not met by new resource additions is met by purchased power at the forecasted Utility-specific short-term purchased power price. BPA uses the method outlined in the 2008 ASC Methodology, Section IV *Rules for Determining Exchange*, Subsection D.

IV. REVIEW OF THE ASC FILING

A. Identification and Analysis of Issues from the May 7, 2008 ASC Appendix 1 Filing

BPA is responsible for reviewing all costs and loads for determining ASCs in accordance with section 5(c) of the Northwest Power Act and the 2008 ASC Methodology. During this review and evaluation, issues were identified for comment. BPA's ASC determination is limited to specific findings on those issues identified for comment with the exception of ministerial or mathematical errors. There may have been additional issues that BPA did not identify for comment in this filing. Acceptance of a Utility's treatment of an item without comment is not intended to signify a decision of the proper interpretation to be applied either in subsequent filings or universally under the 2008 ASC Methodology.

The following is a summary of the Contract System Costs and codes filed on May 7, 2008 by Puget Sound Energy (PSE), and as amended following review and evaluation by BPA. The explanations for BPA's changes are outlined as appropriate by Appendix 1 schedule and supporting files below.

SCHEDULE 1: Plant Investment/Rate Base

1. **302 Franchise & Consent; Snoqualmie Project #2493 License**

   a. Statement of Issue: In the May 7 filing, Puget Sound Energy (PSE) directly assigned this account to Production, without supply adequate support for the Direct Analysis.

   b. Statement of Facts: Account 302 Franchise and Consent sub accounts are to be functionalized using Direct Analysis with a default functionalization using the PTD ratio.

c. Puget Sound Energy's Response to the Issue: PSE's Snoqualmie Falls hydroelectric generating station is located on the Snoqualmie River, in Snoqualmie, Washington. The Snoqualmie Project consists of a diversion dam located 150 feet upstream from Snoqualmie Falls, and two powerhouses (Plants 1 and 2) with a total installed capacity of 44.4 MW. Snoqualmie Plant 1 was originally constructed in 1898 and contains the world's first completely underground powerhouse, built in a cavity 270 feet below Snoqualmie Falls. Snoqualmie Plant 2, about ¼ a mile downstream from Plant 1, was built in 1910 and expanded in 1957. The original license for the Snoqualmie Project was issued on May 13, 1975, effective as of March 1, 1956. That license expired on December 31, 1993. PSE filed the Snoqualmie Project license application with FERC on November 25, 1991. FERC issued the new 40-year license on June 29, 2004. Snoqualmie Project #2493 License costs are amortized over the life of the new license which is 40 years.

d. Analysis of Position and Decision: Puget Sound Energy has provided sufficient information to support the functionalization of Account 302 Franchise and Consent Snoqualmie Project #2493 License to Production.

2. **Account 302 Franchise & Consent; Other**

a. Statement of Issue: In the May 7 filing, Puget Sound Energy directly functionalized this account without showing the basis of the direct assignments.

b. Statement of Facts: Account 302 Franchise and Consent sub accounts are to be functionalized using Direct Analysis with a default functionalization using the PTD ratio.

c. Puget Sound Energy's Response to the Issue: For purposes of PSE's ASC Methodology Expedited Process and Consultation ASC template, electric franchise and license costs other than production facility licensing costs in this account are currently functionalized in the direct analysis using the PTD ratio. This functionalization may be updated if and when additional data about these assets becomes available, or PSE may use the CORPORATE ratio as a proxy for the cross functional nature of these assets.

d. Analysis of Position and Decision: Puget Sound Energy used the PTD ratio to functionalizes Account 302 Franchise & Consent; Other. In the October 1, 2008 filing Puget Sound Energy will be required to show that the data within Account 302 Franchise & Consent; Other should be functionalized with the PTD ratio.

3. **Account 303 Intangible Miscellaneous– Rock Island**

a. Statement of Issue: In the May 7 filing, Puget Sound Energy directly functionalized this account to Production without showing the basis of the direct assignments.

b. Statement of Facts: Account 303 Intangible Miscellaneous sub accounts are to be functionalized using Direct Analysis with a default functionalization of Distribution/Other.

c. Puget Sound Energy's Response to the Issue: The Rock Island Expansion costs in this account relate to expansion of the Rock Island Dam hydroelectric generating station. PSE shares in the cost of this production asset.

d. Analysis of Position and Decision: Puget Sound Energy has provided sufficient information to support the functionalization of Account 303 Intangible Miscellaneous: Rock Island to Production.

4. **Account 303 Intangible Miscellaneous– Other**

a. Statement of Issue: In the May 7 filing, Puget Sound Energy directly functionalized this account without showing the basis of the direct assignments.

b. Statement of Facts: Account 303 Intangible Miscellaneous: Other sub accounts are to be functionalized using Direct Analysis with a default functionalization of Direct Distribution.

c. Puget Sound Energy's Response to the Issue: For purposes of PSE's ASC Methodology Expedited Process and Consultation ASC template, these other costs in this account will be functionalized across production, transmission and distribution using the CORPORATE ratio direct analysis. The CORPORATE ratio reflects the cross functional utilization of these technology assets.

d. Analysis of Position and Decision: Puget Sound Energy used a "Corporate Ratio" to functionalize Account 303 Intangible Miscellaneous: Other. This account is to be functionalized with either Direct Analysis or directly to Distribution. The "Other" sub accounts of Account 303 represent approximately 91% of Account 303 Intangible Miscellaneous: Other. Direct Analysis requires the utility to provide the listing of the items in this account as well as adequate support for the functionalization. In the October 1, 2008 ASC filing Puget Sound Energy will be required to functionalize this account using Direct Analysis, direct analysis of any functionalization ratio used or with the Default to Distribution.

5. Account 182.3 Other Regulatory Assets - Def AFUDC - Regulatory Asset

a. Statement of Issue: In its May 7 filing, Puget Sound Energy functionalized Account 182.3 Other Regulatory Assets - Def AFUDC - Regulatory Asset to Production, Transmission and Distribution using the PTD ratio.

b. Statement of Facts: Account 182.3 Other Regulatory Assets is to functionalize using Direct Analysis, with the default functionalization being Direct Distribution. AFUDC is a component of CWIP. CWIP is functionalized to Distribution.

c. Puget Sound Energy's Response to the Issue: This regulatory asset – No. 18230031 018230031 Electric - Def AFUDC - Regulatory Asset – relates to the excess of WUTC allowed AFUDC over the amount allowed by FERC through the FERC formula. The balance in this account is amortized monthly to order 40600021 Electric WUTC AFUDC amortization, per docket U-82-38. This regulatory asset is part of the jurisdictional rate base calculation. Authorization of Regulatory Treatment is included in Washington Commission order UE-060266 and UG-060267. For purposes of the ASC Methodology Expedited Process and Consultation ASC template, the DIRECT analysis of this regulatory asset resulted in it being functionalized to PTD to reflect the cross functional characteristics of CWIP which can be production, transmission, or distribution-related construction. This functionalization may be updated if and when additional data about the underlying construction projects becomes available.

d. Analysis of Position and Decision: Puget Sound Energy shows that this account is part of their rate proceedings. However AFUDC is closed to CWIP. CWIP is not an exchangeable cost. BPA has functionalized Account 182.3 Other Regulatory Assets - Def AFUDC - Regulatory Asset to Distribution.

6. **Account 182.3 Other Regulatory Assets - FAS 109 Taxes**

a. Statement of Issue: In its May 7 filing, Puget Sound Energy functionalized Account 182.3 Other Regulatory Assets – FAS 109 Taxes using the PTD ratio.

b. Statement of Facts: Federal Income taxes are calculated using the Marginal Tax Calculation. All other Federal Taxes, (Assets/Liabilities) are to be functionalized to Distribution.

c. Puget Sound Energy's Response to the Issue: For purposes of the ASC Methodology Expedited Process and Consultation ASC template, PSE revises the functionalization of this asset to other.

d. Analysis of Position and Decision: Puget Sound Energy agrees with BPAs position and Account 182.3 Other Regulatory Assets – FAS 109 Taxes will be functionalized to Distribution.

7. **Account 182.3 Other Regulatory Assets - Tenaska Regulatory Asset**

a. Statement of Issue: In its May 7 filing, Puget Sound Energy functionalized Account 182.3 Other Regulatory Assets – Tenaska Regulatory Asset to Production without sufficient information to support the Direct Analysis.

b. Statement of Facts: Account 182.3 Other Regulatory Assets is to be functionalize using Direct Analysis, with the default functionalization being Direct Distribution,

c. Puget Sound Energy's Response to the Issue: PSEs regulatory asset No. 018230001 Tenaska Regulatory Asset relates to PSE's gas contract for the Tenaska cogeneration facility. This account includes the buyout cost and capitalized interest related to purchasing supply contracts on PURPA facilities. The deferred balance of each activity will be amortized over the life of the contract, per docket UE-971619. This asset is part of the jurisdictional rate base calculation. The regulatory treatment of the Tenaska Regulatory Asset is described in WUTC Docket No. UE-031725 at paragraph 95. Per paragraph 95(1), PSE will recover fully its Tenaska-related costs if net Tenaska costs fall at or below the benchmark. Paragraph 95(2) describes the consequences on return of the asset if the benchmarks are not met. The paragraph goes on to say that PSE will recover fully the actual costs of gas and return of the regulatory asset even if the benchmark is exceeded.

d. Analysis of Position and Decision: Puget Sound Energy has provided adequate support for the Direct Analysis of Account 182.3 Other Regulatory Assets – Tenaska Regulatory Asset to Production.

8. **Account 182.3 Other Regulatory Assets – 2001 & 2004 Rate Case Electric**

a. Statement of Issue: In its May 7 filing, Puget Sound Energy functionalized Account 182.3 Other Regulatory Assets – 2001 & 2004 Rate Case Electric Asset using the CORPORATE DIRECT analysis ratio.

b. Statement of Facts Account 182.3 Other Regulatory Assets is to functionalize using Direct Analysis, with the default functionalization

being Direct Distribution. The cost of Rate Cases either as a deferred asset or a direct cost (Account 928 Regulatory Commission Expenses) is to be functionalized to Distribution.

c. Puget Sound Energy's Response to the Issue: This asset relates to a General Rate case with the WUTC. General rate cases with the WUTC address the production, transmission and distribution functions of utility service. For purposes of PSE's ASC Methodology Expedited Process and Consultation ASC template, these general rate case related regulatory assets and associated amortization expense is functionalized using the CORPORATE DIRECT analysis ratio to reflect the cross-functional nature of the topics addressed in general rate case proceeding.

d. Analysis of Position and Decision: Puget Sound Energy shows that this account represents a cost of business, however costs associated with rate cases or regulatory proceedings is to be functionalized to Distribution. BPA has functionalized Account 182.3 Other Regulatory Assets - Def AFUDC - Regulatory Asset to Distribution.

9. **Account 182.3 Other Regulatory Assets - Hopkins Ridge BPA Transmission Upgrades**

a. Statement of Issue: In its May 7 filing, Puget Sound Energy functionalized Account 182.3 Other Regulatory Assets – Hopkins Ridge BPA Transmission Upgrades to Production.

b. Statement of Facts: Account 182.3 Other Regulatory Assets is to be functionalized using Direct Analysis, with the default functionalization being Direct Distribution.

c. Puget Sound Energy's Response to the Issue: PSE had intended to functionalize this Hopkins Ridge BPA Transmission Upgrades asset to Transmission in the ASC Methodology Expedited Process and Consultation ASC template.

d. Analysis of Position and Decision: Puget Sound Energy agrees that Account 182.3 Other Regulatory Assets – Hopkins Ridge BPA Transmission Upgrades should be functionalized to Transmission. BPA has functionalized Account 182.3 Other Regulatory Assets – Hopkins Ridge BPA Transmission Upgrades to Transmission.

10. **Account 182.3 Other Regulatory Assets - Electric - BPA Power Exch Invstmt - Reg Asset**

a. Statement of Issue: In its May 7 filing, Puget Sound Energy functionalized Account 182.3 Other Regulatory Assets - Electric - BPA Power Exch Invstmt - Reg Asset to Production.

b. Statement of Facts: Account 182.3 Other Regulatory Assets is to be functionalized using Direct Analysis, with the default functionalization being Direct Distribution.

c. Puget Sound Energy's Response to the Issue: Line 4 of page 232 Other Regulatory Assets in the FERC Form 1 is comprised of two offsetting accounts: Regulatory Asset No. 018230071 Electric - BPA Power Exch Invstmt - Reg Asset, and Regulatory Asset No. 018230081 Electric - BPA Power Exch Inv Amort - Reg Asset. This account is used to record the amortization of the BPA Power Exchange Investment recorded in account 18230071, per Cause U-89-2688-T. Both of these accounts are part of the jurisdictional rate base calculation. These accounts are functionalized to production.

d. Analysis of Position and Decision: Puget Sound Energy has provided sufficient information to support the functionalization of Account 182.3 Other Regulatory Assets - Electric - BPA Power Exch Invstmt - Reg Asset to Production.

11. **Account 182.3 Other Regulatory Assets - Chelan County PUD Contract Initiation**

a. Statement of Issue: In its May 7 filing, Puget Sound Energy functionalized Account 182.3 Chelan County PUD Contract Initiation to Production without adequate information to support this functionalization

b. Statement of Facts: Account 182.3 Other Regulatory Assets is to be functionalized using Direct Analysis, with the default functionalization being Direct Distribution.

c. Puget Sound Energy's Response to the Issue: This regulatory asset relates to the Chelan County PUD Contract Initiation fee paid by PSE to Chelan County PUD for a new 20 year contract that will commence after the current 50 year contract expires in 2011. This regulatory asset accrues interest at the net of tax rate of return because the customers that will be receiving the benefit of the power should pay the carrying costs of securing the power. Amortization of this asset will begin once the power under the new contract starts being delivered to PSE. This regulatory asset and its associated amortization, once that commences, should be functionalized to production. .

d. Analysis of Position and Decision: Puget Sound Energy has provided information that shows Account 182.3 Chelan County PUD Contract Initiation is a Regulatory Asset. However, the asset will not be recovered in rates prior to the end current Chelan contract that expires in 2011. Since this account is not part of Puget's rate base for regulatory purposes, Account 182.3 Chelan County PUD Contract Initiation is a Regulatory Asset will be functionalized to Distribution.

SCHEDULE 1A: Cash Working Capital – no changes

SCHEDULE 2: Capital Structure and Rate of Return

1. **Embedded Cost of Debt**

a. Statement of Issue: Did Puget Sound Energy use the Correct Weighted Cost of Debt.

b. Statement of Facts: Puget Sound Energy provided a 6.83% cost of Debt. The weighted cost of debt is calculated to be 3.82%. BPA asked why the cost of debt varied from 6.819%

c. Puget Sound Energy's Response to the Issue: For purposes of PSE's ASC Methodology Expedited Process and Consultation ASC template, PSE's weighted cost of debt is equal to 3.82%. This result is based on an average cost of 6.83% (comprised of the costs of Long-Term Debt, Short-Term Debt and Trust Preferred) and a capitalization ratio of 55.95% per ORDER 08 in WUTC DOCKETS UE-060266 and UG-060267 (consolidated).

d. Analysis of Position and Decision: Puget Sound Energy has provided sufficient information that supports the use of 6.83% cost of Debt.

SCHEDULE 3: Expenses

1. **Account 908 - Customer Assistance Expenses (Major only)**

a. Statement of Issue: The functionalization of Account 908 Customer Assistance Expenses was functionalized using Direct Analysis.

b. Statement of Facts: Functionalization using Direct Analysis for Account 908 Customer Assistance Expenses is required. Direct Analysis must be supported with sufficient details of the account and justification of the functionalization.

c. Puget Sound Energy's Response to the Issue: For ratemaking purposes, conservation is a production resource. All conservation related

expenditures (regulatory assets and their associated amortization expense) are therefore functionalized to production in the ASC. Conservation expenditures and the amortization rates used to amortize those expenditures are determined based on applying PSE's production classification and production allocation factors (peak credit method) to conservation expenditures (per the WUTC conservation tracker/rider cost recovery provisions.) Amortization of conservation expenditures using these amortization rates are booked to Account 908 and these costs in account 908 are therefore functionalized to production in the ASC.

d. Analysis of Position and Decision: Puget Sound Energy has provided sufficient information that supports the functionalization of Account 908 Customer Assistance Expenses.

2. **Account 908 - Customer Assistance Expenses: Low Income Program**

a. Statement of Issue: Correct functionalization of Account 908 Customer Assistance Expenses was functionalized using Direct Analysis.

b. Statement of Facts: Functionalization using Direct Analysis for Account 908 Customer Assistance Expenses Low Income Program is required. Direct Analysis must be supported with sufficient details of the account and justification of the functionalization.

c. Puget Sound Energy's Response to the Issue: Several programs (PSE Help Program, Warm Home Fund, and LIHEAP Program) are available to low-income customers of PSE to help reduce natural gas or electricity bills and make homes more weatherproof. This assistance can help customers avoid having to choose between paying their utility bill and paying for other necessities such as food, rent, or medicine. Most of these programs are administered by the Energy Assistance Agencies.

1. PSE's HELP Program provides additional bill-payment assistance (beyond the federal LIHEAP program) to qualified PSE customers.

2. The PSE HELP Program is funded by PSE rate payers through low income tracker/rider rates. Billed low income revenue resulting from these tracker/rider rates is reclassified to a liability by recording the total offsetting expense to a sub account in Account 908.

3. The low income funds are used to pay for the retail utility services provided to the low income customer from the utility's production, transmission and distribution system.

4. The Account 908 Low income liability should be functionalized using a method that reflects the utility-wide nature of the services being funded for the low income customer (i.e., retail utility service). For purposes of PSE's ASC Methodology Expedited Process and Consultation ASC template, the CORPORATE ratio was used. This ratio is a composite of functionalized return on rate base plus functionalized operation and maintenance (O&M) expense net of purchase power. The ratio reflects the plant/asset component of utility service as well as the operation and maintenance expense incurred by PSE to provide retail service.)

d. Analysis of Position and Decision: Puget Sound Energy is correct in functionalizing conservation to Production. Because this account is tied to Account 253 Low Income Program – Electric, a change in functionalization would include changing a liability that was not noted in the BPA Issues List. BPA will address Account 908 Customer Assistance Expenses Low Income Program in the October 1, 2008 ASC filing.

3. **Account 40100011 - Amortization of Account 302 Franchise and License**

a. Statement of Issue: In the May 7, 2008 filing, Puget used Direct Analysis to functionalize Account 40100011 - Amortization of Account 302 Franchise and License

b. Statement of Facts: The amortization of Account 302 Franchise and Consent sub accounts are to be functionalized using Direct Analysis with a default functionalization using the PTD ratio. The direct analysis must have sufficient information to justify the functionalization of the account.

c. Puget Sound Energy's Response to the Issue: The functionalization of amortization of the electric franchise and license intangible assets follows the functionalization of the related asset. For purposes of PSE's ASC Methodology Expedited Process and Consultation ASC template, this expense is currently functionalized using the default functionalization for Accounts 302 and 303, except as indicated on tab DIRECT Int Amort E302 and E303. This functionalization may be updated for purposes of the October 1 template filing to more fully reflect the functional nature of the underlying assets. Additional information/data describing each of the assets associated with this amortization expense will be provided as/if available.

d. Analysis of Position and Decision: Puget Sound Energy is consistent in the functionalization of the Asset account and Amortization account.

4. **Account 4040091 Amortization of Account 302 and 303**

a. Statement of Issue: In the May 7, 2008 filing, Puget used Direct Analysis to functionalize Account 4040091 - Amortization of Account 302 Intangible Plant.

b. Statement of Facts: The amortization of Account 4040091 - Amortization of Account 302 Intangible Plant is to be done with Direct Analysis or with the default functionalization ratios. The direct analysis must have sufficient information to justify the functionalization of the account.

c. Puget Sound Energy's Response to the Issue: The functionalization of amortization of the Electric Computer Software intangible assets follows the functionalization of the related asset. For purposes of PSE's ASC Methodology Expedited Process and Consultation ASC template, this expense is currently functionalized through direct analysis. This direct analysis functionalized the asset and associated amortization expense based on the functional nature of the specific asset included in the account and utilized the direct analysis ratio CORPORATE to functionalize some of the assets included in this account. The functionalization of this account will be updated for purposes of the October 1 template filing to more fully reflect the functional nature of the underlying assets. Additional information/data describing each of the assets associated with this amortization expense will be provided as/if available.

d. Analysis of Position and Decision: Puget Sound Energy is consistent in the functionalization of the Asset account and Amortization account.

5. **Account 4040312 – Amortization of Account E302 and E303 Fredonia #3 & #4**

a. Statement of Issue: In the May 7, 2008 filing, Puget used Direct Analysis to functionalize Account 4040312 - Amortization of Account E302 and E303 Fredonia #3 & #4.

b. Statement of Facts: The amortization of Account 4040091 - Amortization of Account 302 Intangible Plant is to be done with Direct Analysis or with the default functionalization ratios. The direct analysis must have sufficient information to justify the functionalization of the account.

c. Puget Sound Energy's Response to the Issue: Fredonia #3 and #4 are PSE gas turbine generating plants. The amortization schedule for this asset is based on an amortization period of 5 years and 7 months.

d. Analysis of Position and Decision: Puget Sound Energy is correct in the functionalization of this account. In the review of Accounts 302 & 303, Fredonia #3 & #4 is not detailed. In the October 1, 2008 ASC filing the fictionalization of this account will be reviewed.

6. **Account 404 – Amortization of Intangible Assets (302 & 303)**

a. Statement of Issue: In its May 7th filing, Puget Sound Energy functionalized the amortization of 302 Franchise & Consent to Production. In addition, account 303 was functionalized using Direct Analysis. What is the regulatory treatment of this account?

b. Statement of Facts: Direct Analysis requires justification of the cost allocations to Production.

c. Puget Sound Energy's Response to the Issue: The amortization of the rate base in these accounts follows the treatment accorded the rate base described above.

d. Analysis of Position and Decision: Puget Sound Energy has provided sufficient information to support the functionalization of Account 302 & 303 –Amortization of Intangible Plant

7. **Account 404 – Direct Common Depr & Amort Exp – Common Plant**

a. Statement of Issue: In its May 7th filing, did Puget Sound Energy include Common Plant associated with the Gas utility in the ASC calculation.

b. Statement of Facts: The ASC for each utility includes only exchangeable Electric costs.

c. Puget Sound Energy's Response to the Issue: The common utility general plant and related expenses associated with the Gas business have been removed from the total common utility general plant and related expense. The common utility expenses in Accounts 901-935 associated with the gas utility are shown on pages 356 and 357 of the FERC Form 1. The electric portion of these accounts are also shown on these pages and are also included in the total electric utility account balances for Accounts 901-935 shown on pages 322-232 of the FERC Form 1. The account balances on pages 322-232 are the inputs for the ASC on tab Sch 3 – Expenses and these balances do not include the gas portion.

d. Analysis of Position and Decision: Puget Sound Energy has provided sufficient information to support the functionalization of Account 404 – Direct Common Depr & Amort Exp – Common Plant

8. **Account 404 – Amortization of Limited Term Electric Plant**

a. Statement of Issue: In its May 7th filing, Puget Sound Energy used Direct Analysis to functionalize Account 404 – Amortization of Limited Term Electric Plant, without adequate supporting information.

b. Statement of Facts: The functionalization of Account 404 – Amortization of Limited Term Electric Plant, must include a description of the account that will justify the functionalization.

c. Puget Sound Energy's Response to the Issue: Amortization of Limited Term Electric Plant costs are shown on pages 336 column (d) and pages 356 section 3 of the FERC Form 1. These account balances are input into the ASC in several different accounts on tab Sch 3 – Expenses.

The Intangible plant related portion in the amount of $1,966,305 is input to Accounts 302-303 on tab Sch 3 - Expenses. These expenses are functionalized using DIRECT analyses. Tab DIRECT Int Amort E302 and E303 in PSE's ASC Methodology Expedited Process and Consultation ASC template shows the functionalization of the amortization amount, and tab DIRECT E302 and DIRECT E303 shows the functionalization of the related assets.

d. Analysis of Position and Decision: Puget Sound Energy has provided sufficient information to support the functionalization of Account 404 – Amortization of Limited Term Electric Plant.

9. **Account 404 – Amortization of Plant Acquisition Adjustments Direct E406 and 407 - Electric WUTC AFUDC – 40600021**

a. Statement of Issue: In its May 7 filing, Puget Sound Energy functionalized Account 404 Other Regulatory Assets - Def AFUDC - Regulatory Asset to Production, Transmission and Distribution using the PTD ratio.

b. Statement of Facts: Account 404 Other Regulatory Assets - Def AFUDC - Regulatory Asset is to be functionalized using Direct Analysis. AFUDC is a component of CWIP. CWIP is functionalized to Distribution.

c. Puget Sound Energy's Response to the Issue: The regulatory asset – No. 018230031 Electric - Def AFUDC - Regulatory Asset – relates to the excess of WUTC allowed AFUDC over the amount allowed by FERC through the FERC formula. This account reflects the amortization of the regulatory asset. This amortization expense is included (unadjusted) in jurisdictional ratemaking and is recovered in rates. For purposes of the ASC Methodology Expedited Process and Consultation ASC template, the DIRECT analysis of the regulatory asset and its associated amortization expense resulted in it being functionalized to PTD to reflect the cross

functional characteristics of CWIP which can be production, transmission, or distribution related construction. This functionalization may be updated if and when additional data about the underlying construction projects becomes available.

d. Analysis of Position and Decision: Puget Sound Energy shows that this account is part of their rate proceedings. However AFUDC is closed to CWIP. CWIP is not an exchangeable cost. BPA has functionalized Account 182.3 Other Regulatory Assets - Def AFUDC - Regulatory Asset to Distribution.

10. **Amortization of Plant Acquisition Adjustments Direct E406 and 407 - Elect Acquis Adj – Encogen**

a. Statement of Issue: In its May 7th filing, Puget Sound Energy used Direct Analysis to functionalize Amortization of Plant Acquisition Adjustments Direct E406 and 407 - Elect Acquis Adj – Encogen, without adequate supporting information.

b. Statement of Facts: The functionalization of Amortization of Plant Acquisition Adjustments Direct E406 and 407 - Elect Acquis Adj – Encogen, must include a description of the account that will justify the functionalization.

c. Puget Sound Energy's Response to the Issue: PSE acquired the Encogen natural gas-fired cogeneration facility in Bellingham, Washington in 1999. WUTC Docket No UE-991498 established the accounting treatment of the acquisition adjustment associated with the Encogen production asset. The acquisition adjustment for this production asset and the associated amortization expense is functionalized to production.

d. Analysis of Position and Decision: Analysis of Position and Decision: Puget Sound Energy has provided sufficient information to support the functionalization of Amortization of Plant Acquisition Adjustments Direct E406 and 407 - Elect Acquis Adj – Encogen.

SCHEDULE 3A: Taxes – no changes

SCHEDULE 3B: Other Included Items – no changes

SCHEDULE 4: Average System Cost

1. **Distribution Loss:**

a. Statement of Issue: In its filing, Puget Sound Energy used a 4.58% Distribution Loss Factor in determination of its ASC.

b. Statement of Facts: The May 7th filing Appendix 1 template did not require a Utility to complete a Distribution Loss Study to increase the Total Retail Load. As outlined in the ASCM ROD, BPA allows participating Utilities that have the ability to directly measure distribution losses on their system to submit such measurements, subject to BPA review and approval, with their ASC filings. Utilities that do not possess the capability to directly measure distribution losses on their system are required to submit a formal distribution loss study with their ASC filing. The distribution loss study is valid for a period of seven years. Utilities that do not have the ability to directly measure distribution losses on their system and do not have a formal distribution loss study that was prepared within the previous seven years of the date of the ASC filing will use the default distribution loss study method described in the ASCM ROD, Section 4.10.5.

c. Puget Sound Energy's Response to the Issue: PSE's retail load loss value used in the ASC Methodology Expedited Process and Consultation ASC template was derived using a loss factor of 4.58%. This loss factor is from the loss study used by PSE in BPA Docket No. 7-A2-9501.

d. Analysis of Position and Decision: For purposes of the expedited filing, BPA completed the Distribution Loss Factor outlined in the ASCM ROD, Section 4.10.5. Puget Sound Energy did not provide a Distribution Loss Study. Puget Sound Energy's Factor has been set at 4.99%.

SUPPORTING DOCUMENTATION: Purchased Power and Sales for Resale – no changes

SUPPORTING DOCUMENTATION: Salaries and Wages – no changes

SUPPORTING DOCUMENTATION: Labor Ratios

1. **Maintenance of General Plant (GPM) Ratio: Miscellaneous Equipment**

a. Statement of Issue: Incorrect functionalization of Labor Ratio "Miscellaneous Equipment in the Maintenance of General Plant (GPM)"

b. Statement of Facts: Miscellaneous Equipment in the Maintenance of General Plant Ratio was mistakenly functionalized to Distribution rather than PTD in the ASC Template.

c. Analysis of Position and Decision: BPA corrected the error and the functionalization of Miscellaneous Equipment in the Maintenance of General Plant Ratio was changed from Distribution to PTD in the ASC Template.

B. Identification and Analysis of Issues from comments to the July 8, 2008 ASC Draft Report

SCHEDULE 1: Plant Investment/Rate Base

1. Account 183.3 – Other Regulatory Assets

a. Statement of Issue: Account 183.3 Hopkins Ridge BPA Transmission Upgrades

b. Puget Sound Energy's Response to the Issue: PSE notes that BPA included "Taxes will be functionalized to distribution" in our discussion of Account 183.3 Hopkins Ridge BPA Transmission Upgrades.

c. Analysis of Position and Decision: BPA concludes this was an error and should be removed.

SCHEDULE 1A: Cash Working Capital – no changes from July 8, 2008 report

SCHEDULE 2: Capital Structure and Rate of Return - no changes from July 8, 2008 report

SCHEDULE 3: Expenses – no changes from July 8, 2008 report

SCHEDULE 3A: Taxes – no changes from July 8, 2008 report

SCHEDULE 3B: Other Included Items – no changes from July 8, 2008 report

SCHEDULE 4: Average System Cost– no changes from July 8, 2008 report

SUPPORTING DOCUMENTATION: Purchased Power and Sales for Resale

a. Statement of Issue: Treatment of the Residential Exchange Settlement Payment in the ASC Template.

b. Statement of Facts: The Residential Exchange Settlement Payment was erroneously included in Account 555 – Purchased Power as a credit and then included as a separate line item (REP reversal) in the ASC calculation.

c. Analysis of Position and Decision: The Residential Exchange Settlement Payment is not an exchangeable cost or credit. BPA therefore removed the Residential Exchange Settlement Payment (credit) from Account 555 – Purchased Power, which increased purchased power by the amount of the

credit. BPA simultaneously removed the REP reversal as a separate line item in the ASC template.

SUPPORTING DOCUMENTATION: Salaries and Wages – no changes from July 8, 2008 report

SUPPORTING DOCUMENTATION: Labor Ratios – no changes from July 8, 2008 report

C. Identification and Analysis of Issues from comments to the August 4, 2008 ASC Draft Report

SCHEDULE 1: Plant Investment/Rate Base–

1. **For Account 108, line item "Capital Leases - Common Plant" and In-Service: Depreciation of Common Plant**

   a. Statement of Issue: Errata corrections to the 2008 Average System Cost Methodology ("2008 ASCM") for Account 108, line item "**Capital Leases - Common Plant"** (line 69 in the electronic template) and "**In-Service: Depreciation of Common Plant (a)"** (line 71 in the electronic template), remove the **PTD** option from functionalization "Method Optional" column.

   b. Analysis of Position and Decision: This correction is necessary to equate all Common Plant accounts to DIRECT functionalization under **Utility Plant: Common Plant** (line 91 in the electronic template). There are no functionalization options under Common Plant and all accounts are to be functionalized by Direct analysis.

2. For Account 115, line item "**Amortization of Acquisition Adjustments**

   a. Statement of Issue: Errata corrections to the 2008 Average System Cost Methodology ("2008 ASCM") for Account 115, line item "**Amortization of Acquisition Adjustments** (line 73 in the electronic template), remove option from functionalization "Method Optional" column (cell F73 in electronic template) and equate cell E73 to E92 (**Acquisition Adjustments (Electric)**, Account 114, line 92 in electronic template).

   b. Analysis of Position and Decision: This correction is necessary because Depreciation and Amortization Reserves must follow the same functionalization used for Utility Plant under Assets and Other Debits.

SCHEDULE 1A: Cash Working Capital – no changes from the August 4, 2008 report

SCHEDULE 2: Capital Structure and Rate of Return – no changes from the August 4, 2008 report

SCHEDULE 3: Expenses

1. For Account 406, line item "**Amortization of Plant Acquisition Adjustments (Electric)**

   a. Statement of Issue: Errata corrections to the 2008 Average System Cost Methodology ("2008 ASCM") for Account 406, line item "**Amortization of Plant Acquisition Adjustments (Electric)** (line 96 in the electronic template), equate cell E96 to Account 114 **Schedule 1, *Plant Investment/ Rate Base* (Acquisition Adjustments (Electric)**, (cell E92 in electronic template).

   b. Analysis of Position and Decision: This correction is necessary because Depreciation and Amortization expenses must follow the same functionalization used for Utility Plant under Plant Investment/Rate Base, Assets and Other Debits.

2. Account 908, line item "**Customer Assistance Expenses (Major only)**"

   a. Statement of Issue: Errata corrections to the 2008 Average System Cost Methodology ("2008 ASCM") for Account 908, line item "**Customer Assistance Expenses (Major only)**" (line 52 in the electronic template) requires DIRECT analysis of conservation related expenses:

   b. Analysis of Position and Decision: All exchangeable conservation costs may be functionalized to Production (PROD); all other costs will be functionalized to Distribution/Other (DIST).

SCHEDULE 3A: Taxes – no changes from the August 4, 2008 report

SCHEDULE 3B: Other Included – no changes from the August 4, 2008 report

SCHEDULE 4: Average System Cost - – no changes from the August 4, 2008 report

SUPPORTING DOCUMENTATION – Labor Ratios

1. For Labor Ratio Input: line item "**Customer Service and Informational**"

   a. Statement of Issue: For Labor Ratio Input: line item "**Customer Service and Informational**" (line 17 in the electronic template), did not follow the same functionalization as Account 908 in Schedule 3.

b. Analysis of Position and Decision: This Ratio requires DIRECT analysis of conservation related expenses associated with Account 908: all exchangeable conservation costs may be functionalized to Production (PROD); all other costs will be functionalized to Distribution/Other (DIST).

D. Exchange Period ASC New Resource Additions

The ASCM provides that changes to an established ASC are allowed to account for major new resource additions and purchases that are projected to come on-line or be purchased and used to meet that Utility's retail load during the BPA rate period. The change in ASC must meet the materiality threshold as the change in ASC resulting from adding major new resources, that is, a 2.5 percent or greater change in Base Period ASC. BPA allows Utilities to submit stacks of individual resources that, when combined, meet the materiality threshold. However, each resource in the stack must result in an increase of Base Period ASC of 0.5 percent or more. BPA determined a change in Puget Sound Energy's ASC using the methods as described in the ASCM ROD, section 4.2.10.

Puget Sound Energy did provide New Resource Additions in its May 9, 2008, filing, but due to confidentiality issues PSE provided a privilege and confidential redacted version.

V. FINAL EXPEDITED ASC FORECAST for FY 2009-2013

The following three tables summarize the forecast of Contract System Cost (CSC) and Contract System Load (CSL) for purposes of determining Puget Sound Energy's forecast ASCs for FY 2009 through FY 2013. Table 2: *FY 2009-2013 ASC Summary,* identifies the CSC, CSL, and Puget Sound Energy's ASCs published in the July 8, 2008 report. *Revised* Table 2: *FY 2009-2013 ASC Summary* identifies the revised CSC, CSL, and Puget Sound Energy's ASCs as appropriate and as a result of Puget Sound Energy's comments to the July 8, 2008 report. *Final* Table 2: *FY 2009-2013 ASC Summary* identifies the final CSC, CSL, and Puget Sound Energy's ASCs. The procedures used in making the July 8, 2008, determinations and any required changes published in both the August 4, 2008, and this final September 11, 2008, reports are outlined in the 2008 ASCM ROD and described herein. The results shown in all tables are forecasts for each year of the WP-07 rate test period (FY 2009-2013), as defined in section 7(b)(2) of the NW Power Act, and are used to calculate the PF Exchange Rate for FY 2009 of the WP-07 Supplemental Wholesale Power Rate Adjustment Proceeding (WP-07 Rate Case).

The BPA Forecast Model used to calculate the values shown below is located at http://www.bpa.gov/corporate/finance/ascm/filings.cfm.

Table 2: FY 2009-2013 ASC Summary – July 8, 2008

Date (mid-year)	**4/1/2009**	**4/1/2010**	**4/1/2011**	**4/1/2012**	**4/1/2013**
Fiscal Year	**2009**	**2010**	**2011**	**2012**	**2013**

CONTRACT SYSTEM COST

Production	1,355,320,900	1,368,987,966	1,386,563,292	1,407,535,341	1,429,118,492
Transmission	87,480,896	87,681,153	88,086,064	88,560,889	89,099,153
NLSL Resource Cost	0	0	0	0	0
(Less) NLSL Costs	0	0	0	0	0
Contract System Cost	**1,442,801,796**	**1,456,669,119**	**1,474,649,356**	**1,496,096,231**	**1,518,217,644**

CONTRACT SYSTEM LOAD

Total Retail Load @ Meter	21,927,453	22,118,040	22,279,295	22,425,579	22,561,132
(Less) NLSL	0	0	0	0	0
Total Retail Load (Net of NLSL)	21,927,453	22,118,040	22,279,295	22,425,579	22,561,132
Distribution Losses	1,094,180	1,103,690	1,111,737	1,119,036	1,125,800
Contract System Load	**23,021,633**	**23,221,730**	**23,391,032**	**23,544,615**	**23,686,933**

AVERAGE SYSTEM COST

ASC ($/MWh)	**$62.67**	**$62.73**	**$63.04**	**$63.54**	**$64.10**

Revised Table 2: FY 2009-2013 ASC Summary – August 4, 2008

Date (mid-year)	**4/1/2009**	**4/1/2010**	**4/1/2011**	**4/1/2012**	**4/1/2013**
Fiscal Year	**2009**	**2010**	**2011**	**2012**	**2013**

CONTRACT SYSTEM COST

Production	1,253,780,672	1,267,291,233	1,293,645,689	1,317,595,918	1,342,581,582
Transmission	87,480,896	87,681,153	88,086,064	88,560,889	89,099,153
NLSL Resource Cost	0	0	0	0	0
(Less) NLSL Costs	0	0	0	0	0
Contract System Cost	1,341,261,568	1,354,972,386	1,381,731,753	1,406,156,807	1,431,680,735

CONTRACT SYSTEM LOAD

Total Retail Load @ Meter	21,927,453	22,118,040	22,279,295	22,425,579	22,561,132
(Less) NLSL	0	0	0	0	0
Total Retail Load (Net of NLSL)	21,927,453	22,118,040	22,279,295	22,425,579	22,561,132
Distribution Losses	1,094,180	1,103,690	1,111,737	1,119,036	1,125,800
Contract System Load	23,021,633	23,221,730	23,391,032	23,544,615	23,686,933

AVERAGE SYSTEM COST

ASC ($/MWh)	**$58.26**	**$58.35**	**$59.07**	**$59.72**	**$60.44**

Final Table 2: FY 2009-2013 ASC Summary – September 11, 2008

Date (mid-year)	**4/1/2009**	**4/1/2010**	**4/1/2011**	**4/1/2012**	**4/1/2013**
Fiscal Year	**2009**	**2010**	**2011**	**2012**	**2013**

CONTRACT SYSTEM COST

Production	1,287,048,182	1,299,213,211	1,324,035,089	1,346,357,375	1,369,844,418
Transmission	87,615,204	87,580,901	87,751,169	87,991,341	88,294,956
NLSL Resource Cost	0	0	0	0	0
(Less) NLSL Costs	0	0	0	0	0
Contract System Cost	1,374,663,386	1,386,794,112	1,411,786,258	1,434,348,715	1,458,139,373

CONTRACT SYSTEM LOAD

Total Retail Load @ Meter	21,927,453	22,118,040	22,279,295	22,425,579	22,561,132
(Less) NLSL	0	0	0	0	0
Total Retail Load (Net of NLSL)	21,927,453	22,118,040	22,279,295	22,425,579	22,561,132
Distribution Losses	1,094,180	1,103,690	1,111,737	1,119,036	1,125,800
Contract System Load	23,021,633	23,221,730	23,391,032	23,544,615	23,686,933

AVERAGE SYSTEM COST

ASC ($/MWh)	**$59.71**	**$59.72**	**$60.36**	**$60.92**	**$61.56**

VI. BPA STATEMENT

This ASC determination is BPAs best estimate of Puget Sound Energy's FY 2009 ASC based on the information and data provided from Puget Sound Energy during the Expedited Review Process, and based on the professional review, evaluation, and judgment of the BPA REP staff. Decisions made herein are not binding for purposes of the Final ASC determination for FY 2009. This determination is made solely for the purpose of providing estimated FY 2009 ASCs for use in the development of BPAs FY 2009 power rates in BPAs WP-07 Supplemental Rate Proceeding. Decisions made herein are not final ASC determinations for purposes of implementing the REP for FY 2009. Final ASC determinations used to calculate REP benefits for each exchanging Utility for FY 2009 will be established by BPA after a review of such Utilities' October 1, 2008, Appendix 1 filings. Such reviews will be conducted in compliance with the Final 2008 ASC Methodology.

BPA has resolved the issues set forth in Section III of this report, as amended, in accordance with the 2008 Average System Cost Methodology (ASCM) as it is currently described in the Final Record of Decision, and with generally accepted accounting principles. BPA believes the information and data contained herein fairly estimates the Average System of Puget Sound Energy for FY 2009 of the WP-07 Supplemental Wholesale Power Rate Adjustment Proceeding.

The Final Appendix 1 Filing, Forecast Model and NLSL assessment used to calculate Puget Sound Energy's ASCs can be viewed at BPAs ASC website: http://www.bpa.gov/corporate/finance/ascm/filings.cfm.